

Message Text

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ACTION EUR-25

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C O N F I D E N T I A L MOSCOW 11788

E.O. 11652: GDS

TAGS: ECON EFIN UR NATO

SUBJ: ECONADS: ESTIMATE OF SOVIET BALANCE OF PAYMENTS IN
CONVERTIBLE CURRENCIES

REF: USNATO 4145, 4148

1. WE FIND DRAFT SUMMARY REPORT AS TRANSMITTED AN EXCELLENT REVIEW. WE SUGGEST A FEW RELATIVELY MINOR CHANGES, AS LISTED BELOW, AND CONTRIBUTE A FEW GENERAL COMMENTS WHICH MAY BE OF SOME VALUE IN DISCUSSION OF PAPER.

2. PARAGRAPH FIVE OF TEXT. WE SUGGEST THAT THIS PARAGRAPH ALSO INCLUDE SOME MENTION OF SOVIET HARD CURRENCY EARNINGS FROM SALE OF DIAMONDS. ALTHOUGH PRODUCTION OF DIAMONDS HAS ONLY BEEN UNDERWAY ABOUT 17 YEARS, ALL INDICATIONS ARE THAT IT IS INCREASING RAPIDLY AND THAT CURRENT EXPORTS --OF BOTH INDUSTRIALS AND GEM STONES--ARE NOW BEINNING TO ADD A SIGNIFICANT INCREMENT TO SOVIET EARNINGS. WE ESTIMATE THAT THIS COULD BE AS MUCH AS DOLS 200 MILLION THIS YEAR.

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3. PARAGRAPH SIX OF TEXT. WE QUESTION IMPLICATION OF WORD

"SOMEWHAT" IN SECOND SENTENCE. ALTHOUGH SOME FORWARD CONTRACTS HAVE RESULTED IN ADDITIONAL, LARGE VOLUME GRAIN IMPORTS THIS YEAR, HIGH SOVIET CROP ESTIMATES FOR 1974 (205 MILLION TONS) CAUSE US TO BELIEVE THAT MAIN EMPHASIS OF IMPORTS FROM THE INDUSTRIAL WEST AND PARTICULARLY THE NATO COUNTRIES IN 1974 IS DEFINITELY MACHINERY AND EQUIPMENT.

4. PARAGRAPH EIGHT OF TEXT. AS OF PRESENT DATE, WE HAVE HEARD OF NO INSTANCES OF SOVIET LENDING OPERATIONS IN EURO-MARKET, ALTHOUGH WE NOTE THAT CAPABILITY IS INCREASINGLY THERE. WE NOTE PARTICIPATION OF MOSCOW NARODNY BANK LONDON IN SYNDICATE CREDIT FOR KRSKO NUCLEAR POWER PLANT IN YUGOSLAVIA AND WE RECEIVE CONTINUED REPORTS OF CAPABILITY OF CEMA INTERNATIONAL INVESTMENTS BANK (IIB) TO INCLUDE HARD CURRENCY IN POSSIBLE CREDITS TO DEVELOPMENT COUNTRIES. THE ONLY EXAMPLE WE HAVE NOTED OF USSR OFFERING CASH FOR HIGH-VALUE PURCHASE OF WESTERN PLANT AND EQUIPMENT HAS BEEN TWO BILLION PLUS DEUTSCHMARK CONTRACT WITH FRG FOR FIRST PHASE OF KURSH STEEL COMPLEX. WE FEEL THAT CASH PURCHASES WILL CONTINUE TO BE THE EXCEPTION AND THAT EFFORTS TO DRAW ON CREDITS AT LOWEST POSSIBLE RATE FOR ALL IMPORTANT PURCHASES WILL CONTINUE TO BE STANDARD SOVIET PROCEDURE, AT LEAST FOR NEXT FEW YEARS. WE NOTE THAT KURSK WAS UNIQUE AMONG HUGE PLANT PURCHASES NEGOTIATED BY USSR IN FIRST HALF OF 1974, AND THAT IMPLICATION WAS MADE AT TIME OF SIGNING OF CONTRACT THAT FURTHER PHASES WOULD BE NEGOTIATED ON CREDIT. THE OTHER LARGE DEALS ARRANGED SO FAR THIS YEAR--JAPAN (DOLS 1.1 BILLION), ITALY (DOLS 950 MILLION), US (DOLS 400 MILLION) HAVE BEEN MAINLY CREDIT.

5. PARAGRAPH TEN OF TEXT. REGARDING STATEMENT IN FOURTH SENTENCE, WE PRESUME DEVELOPING COUNTRIES REFERRED TO ARE ALSO OIL PRODUCING COUNTRIES. IN CASE OF SOME DEVELOPING COUNTRIES, AND WE ARE THINKING IN PARTICULAR OF INDIA, WE WOULD PRESUME THAT DEBT REPAYMENT LEVEL WOULD ACTUALLY DECREASE THIS YEAR, WITH POSSIBLE REQUESTS FOR MORATORIA.

6. PARAGRAPH ELEVEN OF TEXT. WE CONCUR STRONGLY IN CONCLUSION REACHED THAT STRENGTHENING OF SOVIET RESERVES AND LIQUIDITY WILL RESULT IN INCREASED SOVIET ABILITY FOR
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ECONOMIC MANEUVERABILITY TOWARD EASTERN EUROPE AND THE WEST.

7. EMBASSY WOULD APPRECIATE RECEIVING, IF POSSIBLE, COPIES OF SOME OF ESTIMATES OF CAPITAL FLOWS IN SOVIET BALANCE OF PAYMENTS IN HARD CURRENCIES MENTIONED IN PARAGRAPH TWELVE OF TEXT.
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